Bellevue Auto Opportunity Study, Part 1

Prepared for the City of Bellevue

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Section I – Executive Summary

This report provides the City with a high level overview of the automotive industry as it applies to retail automobile dealerships. It explores trends in the domestic and foreign car market; provides a brief summary of the major manufacturers in the market; and addresses selected aspects of dealership operations such as co-location, inventory management, and operations. Data has been collected from public company reports, industry publications and interviews with stakeholders. This is Part 1 of a two-part effort (see Next Steps).

The Rise of the Auto Mall

Over the past twenty years there have been significant changes in how dealership market to customers. Traditionally, marketing methods included print, television advertising and word of mouth referrals. The importance of high visibility dealerships along major thoroughfares was an important draw for owners to draw in new customers. The need for close location of other dealerships with like brands was attractive, even critical to attract consumers who could comparison shop. This gave rise to the “auto mall” clustering model in many cities across the country in the early 90s.

Dealership Operations Today

Today, the internet has profoundly changed how dealers attract customers and, as stated by the internet sales manager of one of the dealerships interviewed for this study, “the internet is the auto mall of the future”. It is estimated that 90% of consumers in the market have already performed some level of research prior to visiting the dealership. This has several implications to the sales process, one key being that although proximity to major freeways and colocation with dealers targeting similar market segments is still preferable for most dealerships, it is increasingly less critical to the success of a franchise. Still, while the internet has influenced how customers learn about dealership inventory, most consumers still prefer to literally “kick-the-tires” prior to making a vehicle purchase. Storing the proper inventory and providing servicing post purchase are still basic elements of a successful dealer franchise. Having a showroom and adequate inventory is still critical to the business of selling cars. The internet has provided dealers with more insight about buying interests and has assisted dealers in maintaining the proper inventory.

Now, when customers armed with internet research make the effort to visit a “brick and mortar” retailer their expectations are higher than in the past. As a result, success in today’s market is more tied to attracting and retaining customers by providing an exceptional customer experience. The consumer experience in the physical showroom, while always a critical sales touch point, has risen in importance in the buying process. Dealers have less opportunity for “in-face” connections given much of the customer due diligence occurs online. Clients who visit the dealership very often are serious buyers in the latter stages of the purchasing decision process. Dealers spend a great deal of capital to provide top of the line showrooms and service waiting areas to meet this rising consumer expectation;

offering top of the line showroom spaces with amenities that enhance the customer experience such as plush lounges, Wi-Fi, food/beverage service and free loaner cars.

Automotive Trends

A noticeable trend across all segments (luxury vs. economy) is the rise of the high mileage and/or hybrid vehicle class. There has been a more than three-fold increase in the spectrum of models available to the public for purchase over the past five years. This trend will undoubtedly continue as customers wish for socially acceptable methods of alternative fuel. In the Northwest and Northern California, this effect is decidedly more pronounced than in other parts of the country.

Dealerships still need to have space to show inventory to customers when they are ready to make a buying decision. The most cost effective model for many owners is the traditional surface lot, showroom and service department; however many of the respondents were open to a structured parking concept. The size of showrooms and service centers vary among the numerous manufactured brands; however in Bellevue the average stated size of preferred operation by surveyed stakeholders is approximately 4 acres.

Summary

The internet has significantly changed the way that people research cars, but they still want to buy a car they have actually seen and driven. As a result, the dealer lot is not going to be disappearing the desired lot size is not likely to change in the near future. The main focus of today's Dealers is to improve "the customer experience", which includes providing better customer amenities in the showroom (comfortable surroundings, internet access, less confrontational sales environment, etc.) and in services service departments (loaner cars, clean comfortable environment, etc.)

Most dealerships in Bellevue would like to continue business in the City, however are concerned about the availability of land that is zoned for automobile dealership use. Ideally, dealers would prefer to be located next to competitors that share similar types of product lines. As a result the City should identify preferred locations that can support dealerships and consider amending zoning in these areas to allow for new or relocating dealerships.

Section II – Dealership Operations

Operating a dealership is an art of managing costs. This is one of the only businesses where the customer, with the advent of internet research, has the ability to investigate an owner's base purchase price for its products. Thus, managing narrowing margins and the customer experience is critical to ongoing profitability.

Most franchises interviewed consisted of four major components, new car sales, used car sales, service (including parts and accessories) and a finance department. Surprisingly, new car sale margins appear to be quite low as compared to the other three components of a dealership operation. New car sales are the entry point by which other downstream revenues are realized. When one new car is sold, then revenue can be made by the finance department when a customer takes a loan for the vehicle. The customer may also purchase a warranty that will fuel service revenue for years into the future. The vehicle may also become a part of the used car inventory.

This cycle places great importance of making new car sales, albeit this may be only one of several revenue generating mechanisms. No part of this revenue generation cycle diminishes the importance of having enough square footage to store inventory, accommodate showrooms or service departments.

As a franchise and independent business the dealership takes on the full resale risk of any inventory they purchase. Car dealers aim to stock to their consumer base preferences. Typically dealers aim to stock a 60-day supply of inventory, increasing this amount when the daily sales rate is rising so that they will not lose sales due to lack of supply.

Operational Expenses

The top three expenses for dealerships are overhead, advertising and inventory. Owners surveyed are keenly interested in keeping costs related to overhead stable and manageable.

Advertising costs vary, however are an ongoing expense item that is unaffected by the size of the dealership. Inventory on the other hand is an expense line item that is very much affected by the size and location of the dealership.

In order to cover ongoing operations, a certain level of inventory along with downstream services must be sold at the proper margin. Vehicle inventory must be held on-site, given current consumer buying trends (most are not willing to purchase without seeing the product first). Dealers carefully consider each unit before ordering inventory from the manufacturer. Inventory is optimized to carry product that will quickly sell and minimize carry-over from one season to the next. Currently, this inventory size has been quoted to be 2 months to 1.5 months of sales volume by the respondent pool.

E-Commerce and Online Advertising

While most automobile sales are closed in traditional brick and mortar dealerships, the Internet is playing an increasingly important role the in shopping and purchasing process. The consumer trend of buying a car online, akin to purchasing a book from Amazon.com, has not emerged.

However, over the last decade, the Internet has continued to influence the purchasing decision of consumers. Before ultimately purchasing a vehicle consumers perform internet searches on inventory, price, dealer reviews and a host of other factors. The internet is a tool for dealers to influence the customer early on in the buying process, encouraging an in-person visit to the dealership. Generally, consumers are not making direct purchases online for big ticket items such as cars without first inspecting the physical merchandise at a brick and mortar dealership. According to Ward's Dealer Business' 2012 edition of the annual e-Dealer 100 ranking, more than 90% of buyers go to the Internet at some point during their shopping experience.

A key take away from the findings discussed in the following report is that the use of the internet during the course of the buying process has increased substantially in recent years and has expanded the way consumers learn about products and has greatly influenced how consumers locate dealerships. Trends such as the use of social media and increasing mobile phone “on the go” search functionality has changed the ways in which consumers learn about dealerships and the way dealerships can reach an otherwise untapped consumer base. The incorporation of focused internet marketing strategies and web presence has increased consumers knowledge of their purchase prior to visiting a dealership.

Dealership Co-Location and Operating in Near Proximity

From our findings, it is rare to find separately owned franchises operating together in the same location. However, multiple make and models of vehicles are frequently operated together under a single owner or joint venture.

Retail automotive franchises are open to operating within close proximity of their competitors. There are market opportunities such as complimentary service offerings that enhance the customers buying experience. One of the respondents elaborated that groups of related businesses often work not in competition but in a complimentary fashion. The respondent further indicated that historically for their franchise, being located near other brands in the same target market (luxury, economy, destination etc.) has been beneficial.

On the other hand, another respondent indicated that while being in close proximity to complimentary service providers is preferred, it is not absolutely necessary for success. The key take away from the interview process is that stakeholders believe being together is better for business.

Section III – Automotive Trends

Trends in the Automotive Market

The automobile industry is in the business of the design, production, marketing, sale, and servicing of motor vehicles. For the purposes of this report, we discuss light vehicles or cars, sport utility vehicles and light trucks excluding heavy trucks and commercial vehicles. The following discussion focuses on the North American retail market.

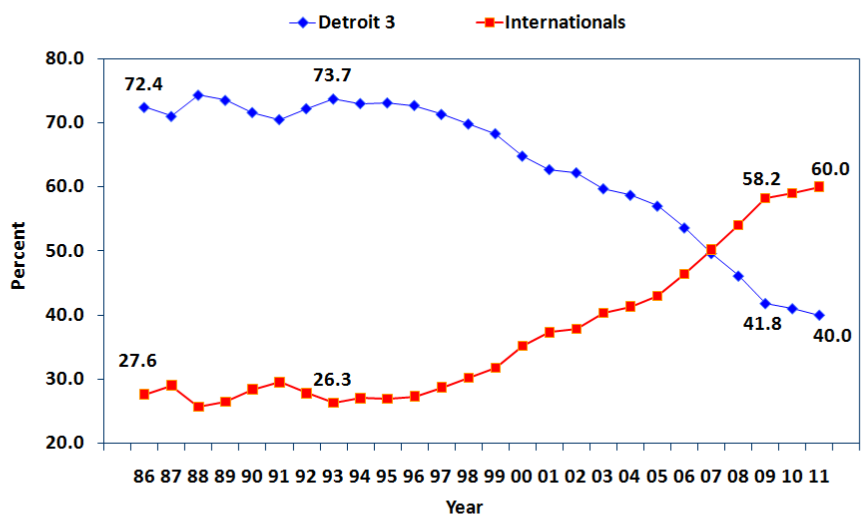
North American Market

The United States is the global leader of the production and consumption of motor vehicles. Automobile production is one of the largest manufacturing industries and is a major economic driver contributing to both employment and productivity. According to the US Census Bureau, revenues for new car dealers in the US totaled an estimated $553 billion in 2010.

The top auto manufactures in North America are General Motors, Chrysler and Ford. They are commonly referred to as “The Big Three”, however in recent years, they have been coined “The Detroit Three” due to shifts in market share. The Big Three moniker was established due to the three firms dominating production and sales volumes globally until the past decade where Japan automakers have snagged the top spots on a few occasions. Given each of the firm’s headquarters are located in Detroit, Michigan the name “The Detroit Three” was born to describe the North American manufactures. There have been no other successful independent auto makers outside of the GM, Chrysler or Ford since 1987 when American Motors was purchased by Chrysler in the late 1980s.

Market Share Statistics

The composition of the auto industry has been transformed over the past two decades as domestic automotive assembly firms (Chrysler, Ford and General Motors) have slowly lost market share to international firms (e.g., Toyota, Honda and Hyundai) operating in the U.S. As shown in Figure 1.1, in 2007, for the first time in history, market share parity occurred; by the end of 2009, the Detroit 3's market share is expected to be just below 42 percent. A leveling-off effect is forecasted for 2010 and 2011. The stark erosion of domestic OEM market share in just twenty years reveals how competitive the U.S. automotive landscape has become for manufacturers worldwide.



In 2010, new light vehicle sales, excluding medium and heavy trucks, in the US increased to 11.6 million up 11% from the prior year.

Year	Pass. Cars	Light Trucks	Med & Heavy Trucks	Total Motor Vehicles	Pass. Cars	Light Trucks	Med & Heavy Trucks	Total Motor Vehicles
2010	5,635	5,919	218	11,772	2,732	4,856	146	7,734
2009	5,401	5,001	200	10,602	2,196	3,382	132	5,710
2008	6,813	6,381	298	13,492	3,776	4,671	225	8,672
2007	7,618	8,471	371	16,460	3,924	6,549	279	10,752
2006	7,821	8,684	545	17,050	4,367	6,431	462	11,260
2005	7,667	9,281	497	17,445	4,321	7,203	422	11,946
2004	7,506	9,361	432	17,299	4,230	7,373	386	11,989
2003	7,610	9,029	328	16,967	4,510	7,319	268	12,097
2002	8,103	8,713	322	17,138	5,019	7,001	258	12,278
2001	8,423	8,700	350	17,473	4,879	6,293	217	11,389
2000	8,847	8,503	462	17,812	5,542	6,840	209	12,591

* Total US sales, including foreign models produced both inside and outside the US, as well as domestic models produced in Canada and Mexico.

Source: S&P Captial Survey December 29, 2011

GM historically has led the US automobile industry in sales since the early 20th century, when it first surpassed Ford. In 1978, GMs market share peaked at 48%, thereafter it has declined steadily, to the most recent 19% of market share in 2010.

North American Motor Vehicle Production

In Thousands of Units

	Cars						Trucks					
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
General Motors	1,473	699	977	23.2%	17.3%	18.8%	1,786	1,081	1,832	27.1%	23.0%	26.4%
Ford Motor	701	548	785	11.1%	13.5%	15.1%	1,424	1,242	1,539	21.6%	26.4%	22.2%
Chrysler	501	206	333	7.9%	5.1%	6.4%	1,364	748	1,238	20.7%	15.9%	17.8%
Total Detroit Three	**2,675**	**1,453**	**2,095**	**42.2%**	**35.9%**	**40.2%**	**4,574**	**3,071**	**4,609**	**69.5%**	**65.2%**	**66.4%**
AM General	-	-	-	0.0%	0.0%	0.0%	7	-	-	0.1%	0.0%	0.0%
Auto Alliance	167	102	123	2.6%	2.5%	2.4%	-	-	-	0.0%	0.0%	0.0%
BMW	10	-	-	0.2%	0.0%	0.0%	161	122	153	2.4%	2.6%	2.2%
CAMI	-	-	-	0.0%	0.0%	0.0%	125	104	-	1.9%	2.2%	0.0%
Honda Motor	855	618	636	13.5%	15.3%	12.2%	566	413	652	8.6%	8.8%	9.4%
Hyundai	153	104	238	2.4%	2.6%	4.6%	84	92	62	1.3%	2.0%	0.9%
Kia	-	-	-	0.0%	0.0%	0.0%	-	16	152	0.0%	0.3%	2.2%
Mercedes	153	91	124	2.4%	2.2%	2.4%	94	50	71	1.4%	1.1%	1.0%
Mitsubishi	54	15	23	0.9%	0.4%	0.4%	5	4	6	0.1%	0.1%	0.1%
Nissan	775	582	803	12.2%	14.4%	15.4%	217	147	214	3.3%	3.1%	3.1%
NUMMI	220	201	63	3.5%	5.0%	1.2%	122	67	27	1.9%	1.4%	0.4%
Subaru/Isuzu	165	116	132	2.6%	2.9%	2.5%	18	55	114	0.3%	1.2%	1.6%
Toyota	666	450	536	10.5%	11.1%	10.3%	431	458	746	6.6%	9.7%	10.8%
Volkswagen	449	320	435	7.1%	7.9%	8.4%	2	1	1	0.0%	0.0%	0.0%
Others	-	-	-	0.0%	0.0%	0.0%	174	110	131	2.6%	2.3%	1.9%
Total transplants	3,667	2,599	3,113	57.8%	64.1%	59.8%	2,006	1,639	2,329	30.5%	34.8%	33.6%
Grand Total	6,342	4,052	5,208	100.0%	100.0%	100.0%	6,580	4,710	6,938	100.0%	100.0%	100.0%

Source: Ward's Automotive Reports

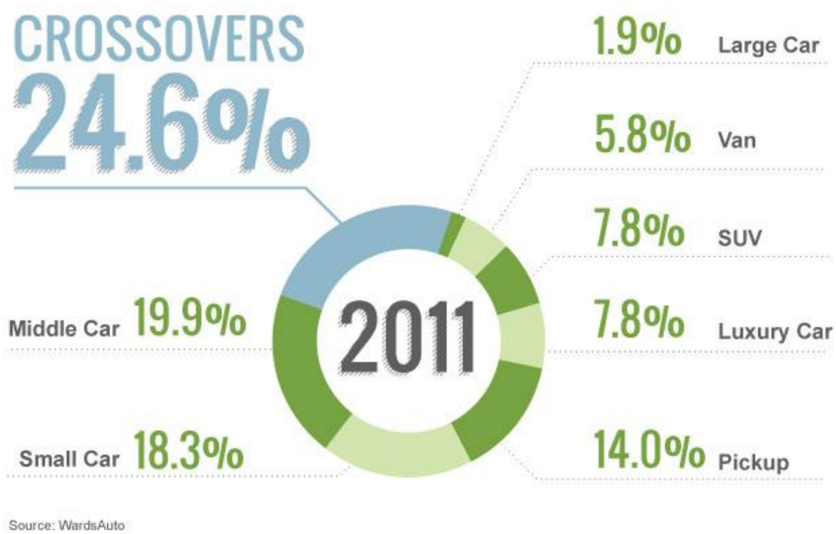
The remaining manufactures of the Detroit Three, Ford and Chrysler have also made small gains in market share. Ford's share climbed to 15% in 2009 and then up to 17% in 2010. Chrysler's share of 9% in 2009 and 9.3% in 2010 remains in third place as related to the three Detroit based makers.

Overall, the Detroit Three brands comprised 45% of the US market in 2010 according to Ward's Automotive Reports. The long-term decline reflects the recent financial difficulties facing the brands as well as competitive pressure from well-received vehicles from foreign producers. Other influencing factors in the Detroit Three's diminished market share the ever increasing selection of hybrid and more fuel-efficient vehicles. The recent market share gains reflects improved financial health and a more robust product offering while the Japanese automakers have recently experienced operating difficulty resulting from the natural disasters of May 2011.

Purchasing Trends by Model Category

There are three central purchasing trends that emerged from our research. First, is the continuing popularity of SUVs. SUV sales have been and will continue to account for a large segment of vehicle sales even if the growth has been somewhat stalled for new vehicle sales. However, the new growth area in the SUV market are for the smaller SUVs - "sport wagons" or crossovers, that are an increasingly attractive choice for buyers. These models are making inroads for a number of reasons - perceived safety concerns associated with the larger models as well as their more car-like ride.

Second, is the growing demand for hybrid and electric cars. Prompted by high oil prices and a desire to be environmentally friendly among other reasons, this market is only likely to continue to grow. Today, consumers can choose from diverse technologies to improve their fuel economy, including 40 hybrids, 33 clean diesel, 4 electric vehicles and more, according to www.fueleconomy.gov.



Lastly, the recovery of the automotive market is evidenced in seven of eight model categories per www.autoalliance.org.

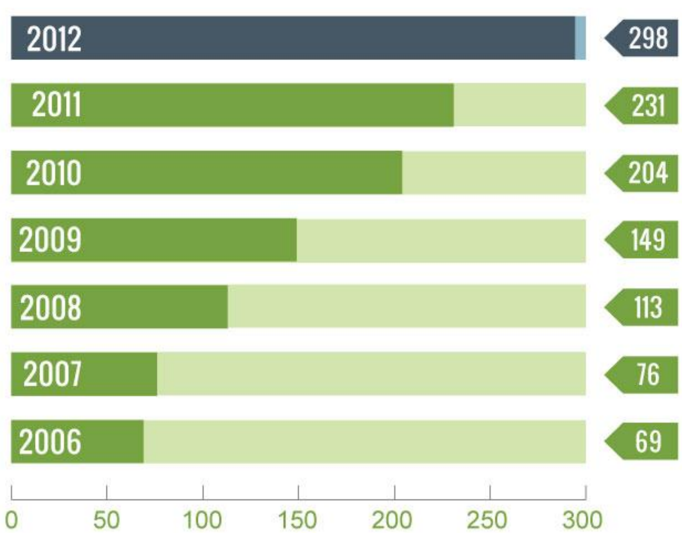
UNIT SALES AND PERCENTAGE CHANGE: 2010 AND 2011

	2010 UNIT SALES	2011 UNIT SALES	PERCENT OF CHANGE
SUV	801,163	998,317	+24.6%
Luxury Car	876,620	994,626	+13.5%
Small Car	2,051,020	2,324,101	+13.3%
Pickup	1,600,829	1,779,105	+11.1%
CUV	2,835,588	3,130,585	+10.4%
Van	678,324	734,109	+8.2%
Middle Car	2,368,128	2,532,575	+6.9%
Large Car	339,665	238,119	-29.9%
TOTAL	11,554,518	12,734,356	+10.2%

Automobile Technology & Innovation

New technological developments have led improved designs and eco-friendly options for future automobiles. Automobile manufacturers have developed a number of alternative fuel technologies, such as electric hybrids and fuel cell cars. These vehicles that are more energy efficient and greatly reduce engine propulsion reliance upon fossil fuels.

AUTOMAKERS INCREASED HIGH MILEAGE VEHICLE CHOICE BY MORE THAN 330% IN 6 YEARS



Source: www.fueleconomy.gov

Section IV – Manufacturer Overview

Overview of Major US and International Manufacturers

This section provides summaries for the major automakers located in Bellevue. The discussion that follows displays the world's largest motor vehicle manufacturing groups, along with the marques produced by each one. The listing is ranked by 2011 end of year production figures from the International Organization of Motor Vehicle Manufacturers (OICA). Each listing contains data for the parent group, and then alphabetically by marque.

The Top 7 Performers of 2011 are:

1. Toyota Motor Corporation
2. General Motors Corporation
3. Volkswagen AG
4. Hyundai-Kia Automotive Group
5. Ford Motor Company
6. Nissan Motor Co., Ltd.
7. Honda Motor Co., Ltd.

Remaining 3 of Top 10 (Not featured below due to limited presence in Bellevue)

8. PSA Peugeot Citroën S.A.
9. Suzuki
10. Renault S.A.

Toyota Motor Corporation (Ranked No. 1, Japan)

http://www.global.toyota.com

Toyota Motor Corporation (Toyota) is headquartered in Toyota, Aichi, Japan. Toyota Motor North America headquarters is located in Torrance, California and operates as a holding company in North America.

Toyota Motor Corporation

Marque	Origin Country	Ownership	Markets
Daihatsu	Japan	Subsidiary	Asia, Africa, and South America
Hino	Japan	Subsidiary	Asia Pacific, North America and South America
Lexus	Japan	Division	Global
Lexus F	Japan	Division	Global
Scion	United States	Subsidiary	United States, Canada
Toyota	Japan	Division	Global

Toyota marketing, sales, and distribution in the US are conducted through a separate subsidiary, Toyota Motor Sales, U.S.A. Inc. It has started producing larger trucks, such as the new Tundra, to go after the large truck market in the United States. Toyota also produces hybrid vehicles in the US such as the Prius, Camry Hybrid, Highlander Hybrid, and various Lexus products. Toyota has sold more hybrid vehicles in the country than any other manufacturer.

There are 8 Toyota, 2 Lexus and 8 Scion dealerships within a 20 mile radius of the zip code 98004. Each brand appears to be marketed separately.

General Motors Co. (Ranked No. 2, United States)

http://www.gm.com

General Motors Company, colloquially known as GM (listed General Motors Corporation before 2009), is headquartered in Detroit, Michigan.

In 2009, the company emerged from government backed Chapter 11 reorganization. In 2010, GM made an initial public offering that was one of the world's top 5 largest IPOs to date. GM returned to profitability in 2011.

General Motors Company

Marque	Origin Country	Ownership	Markets
Alpheon	South Korea	Subsidiary	South Korea
Baojun	China	Joint-Venture	China
Buick	United States	Division	United States, Canada, Mexico, China,Taiwan, Israel
Cadillac	United States	Division	North America, Europe, Asia, Middle East
Chevrolet	United States	Division	Global, except Australia, New Zealand
Corvette	United States	Division	Global, except Australia and New Zealand
Damas	South Korea	Subsidiary	South Korea, Vietnam, Central Asia
GMC	United States	Division	North America, Middle East
Holden	Australia	Subsidiary	Australia, New Zealand
Holden Special Vehicles	Australia	Subsidiary	Australia, New Zealand
Opel	Germany	Subsidiary	Europe(except UK), Middle East, China, Taiwan, South Africa, Australia
Opel Performance Center	Germany	Subsidiary	Europe(except UK), Middle East, China, Taiwan, South Africa, Australia
Vauxhall	United Kingdom	Subsidiary	United Kingdom
Wuling	China	Joint-Venture	China

There are 4 Buick-GMC, 3 Cadillac, 8 Chevrolet dealerships within a 20 mile radius of the zip code 98004. Co-locations include Buick-GMC and Cadillac-Chevrolet.

Volkswagen AG (Ranked No. 3, Germany)

http://www.vw.com/en
http://progress.audiusa.com/
http://www.bentleymotors.com/
http://www.bugatti.com/en/home.html
http://www.porsche.com/usa/

Volkswagen AG (Volkswagen) is headquartered in Wolfsburg, Germany. Volkswagen is Europe's largest automaker. After overtaking Ford in 2008, Volkswagen became the third largest automaker in the world.

Volkswagen AG

Marque	Origin Country	Ownership	Markets
Audi	Germany	Subsidiary	Global
Bentley	United Kingdom	Subsidiary	Global
Bugatti	France	Subsidiary	Global
Lamborghini	Italy	Subsidiary	Global
MAN	Germany	Subsidiary	Europe, Asia, Africa, South America
Porsche	Germany	Subsidiary	Global
Scania	Sweden	Subsidiary	Global
SEAT	Spain	Subsidiary	Europe, South America, Africa, Asia, Mexico
Škoda	Czech Republic	Subsidiary	Global, except North America
Volkswagen	Germany	Subsidiary	Global
Volkswagen Commercial	Germany	Subsidiary	Europe, Latin America, Australia, China

There are 2 Audi, 1 Bentley-Lamborghini, 1 Porsche and 5 Volkswagen dealerships within 20 miles of the zip code 98004. The nearest Bugatti showroom is located in Silicon Valley in Los Gatos, CA. None of the Volkswagen marques appear to be co-located in the Seattle-Bellevue-Tacoma MSA.

Hyundai-Kia Automotive Group (Ranked No. 4, Korea)

https://www.hyundaiusa.com/
http://www.kia.com/

Hyundai-Kia Automotive Group (Hyundai) is headquartered in Seoul, Korea. It is the largest automobile manufacturer, the second largest automaker in Asia after Toyota. The group was formed through the purchase of 51% of South Korea's second-largest car company, Kia Motors, by Hyundai Motor Company in 1998. As of July 2, 2011, Hyundai owns 49.2% of Kia Motors.

Hyundai-Kia Automotive Group

Marque	Origin Country	Ownership	Markets
Hyundai	South Korea	Subsidiary	Global
Kia	South Korea	Subsidiary	Global, except Mexico

There are 5 Hyundai and 5 Kia dealerships within a 20 mile radius of 98004. None of the retailers in this radius appear to be co-located.

Ford Motor Company (Ranked No. 5, United States)

http://www.ford.com/

Ford is headquartered in Detroit, Michigan. It is the oldest automobile manufacturer founded in 1903. The company sells automobiles and commercial vehicles under the Ford brand and luxury cars under the Lincoln brand. Ford's former UK subsidiaries Jaguar and Land Rover, acquired in 1989 and 2000 respectively, were sold to Tata Motors in March 2008.

Ford Motor Company

Marque	Origin Country	Ownership	Markets
Ford	United States	Division	Global
FPV	Australia	Subsidiary	Australia
Lincoln	United States	Division	United States, Canada, Mexico, Middle East, Japan, South Korea
Troller	Brazil	Subsidiary	South America, Africa

There are 7 Ford and Lincoln dealerships within a 20 mile radius of 98004. None of the retailers in this radius appear to be co-located.

Nissan Motor Co., Ltd. (Ranked No. 6, Japan)

http://www.nissanusa.com/

Nissan Motor Co., Ltd.

Marque	Origin Country	Ownership	Markets
Datsun	Japan	Division	Indonesia, India, Russia
Dongfeng	China	Joint-Venture	China
Infiniti	Japan	Division	Global, except Japan, South America and Africa
Infiniti Performance Line	Japan	Division	United States
Nissan	Japan	Division	Global
Venucia	China	Joint-Venture	China

As of 2011, the company's global headquarters is located in Nishi-ku, Yokohama. In 1999, Nissan entered a two way alliance with Renault S.A. of France, which owns 43.4% of Nissan while Nissan holds 15% of Renault shares, as of 2008. Along with its normal range of models, Nissan also produces a range of luxury models branded as Infiniti.

There are 6 Nissan dealerships within a 20 mile radius of 98004. None of the retailers in this radius appear to be co-located.

Honda Motor Co., Ltd. (Ranked No. 7, Japan)

http://www.honda.com/

Honda Motor Co., Ltd.

Marque	Origin Country	Ownership	Markets
Acura	United States	Subsidiary	United States, Canada, Mexico, China
Everus	China	Joint-venture	China
Honda	Japan	Division	Global

Honda is headquartered in Minato, Tokyo, Japan. Honda's global lineup consists of the Fit, Civic, Accord, Insight, CR-V, CR-Z, Legend and the Odyssey. Honda’s luxury line is the Acura. Honda not only manufactures vehicles but has divisions in robotics, motorcycles and power generators.

There are 8 Honda dealerships within a 20 mile radius of 98004. None of the retailers in this radius appear to be co-located.

Section V – Initial Stakeholder Interviews

Introduction

The City of Bellevue's Department of Planning & Community Development is kicking off a study to better understand the current and future needs of auto dealers in the City. Jones Lang LaSalle is assisting with this effort, and is beginning by asking for input from stakeholders. Auto sales are a key part of Bellevue's local economy, and their long-term health is important to the City.

As Bellevue's commercial areas evolve, opportunities for new dealerships, as well as dealership relocations, have become more complex based on a number of factors. We've seen that in the past few years, some new dealerships have employed structured parking and elements of a more "urban model" to land development. In other instances, a more suburban model has continued to be used with single story buildings and surface parking.

Through this study, the City is looking to gain insights on site selection criteria, additional opportunities for "urban models" of dealerships, interest in potential co-location (including sharing of vehicle storage), and how the operational framework of dealers might shift in the future (how cars are sold, role of service, etc.). Ultimately, with existing zoning as a baseline, the City will be developing a plan for where dealership opportunities make the most sense now and into the future.

The City would like to thank you for your participation in these interviews. While the City is not present for these discussions, the results will be included in a summary report available for their review. The City will also want to engage stakeholders as this project moves forward over the next couple months.

<u>QUESTIONS</u>

1. **In your opinion, how have dealer operations changed over the past 5-10 years, and where do you think things are headed in the next decade? Examples might include:**
    a. **Increasing trend in high MPG vehicles, including hybrid, clean diesel, and electric cars;**
    b. **Availability of the internet and web sales;**
    c. **Ability to customize cars for future delivery versus buying from on-site inventory;**
    d. **Role of used car sales;**
    e. **Focus on car service at dealerships and the declining importance of body work; and**
    f. **Desire for on-site customer amenities.**

2. **Either based on where your existing dealership is, or when locating a new dealer, what are some of your locational requirements? Which are most important? Examples might include: freeway access, visibility, parcel size, land cost, proximity to customer base, proximity to other dealers, etc. How are these criteria different for boutique/destination brands such as Maserati, Ferrari, or Porsche?**

3. **How will the following infrastructure investments affect your franchise?**
    a. **NE 4th Street Extension (116th to 120th Ave NE);**
    b. **Widening of 120th Street (NE 4th to Northup);**
    c. **NE 6th Street Extension (I-405 to 120th Ave NE);**
    d. **East Link Light Rail; or**
    e. **Others**

4. **It is understood that there are typically benefits to being located near brands that share similar core customer demographics. What brands of vehicles complement your brand the most? Would being located near these dealers benefit your customer traffic?**

5. **Do you have specific requirements for elements of your dealership, or one that you might be helping to locate? Elements might include size of your service center, showroom, parts and supplies, vehicle inventory (including seasonal "high point"), etc.**

6. **What has been your experience working with a manufacturer when contemplating opening a new location or relocating an existing operation?**

7. **Based on your locational criteria identified above, which areas of the City provide the best opportunity for dealers in your opinion? Could be an existing area or new area. (Show map of City with existing dealers and where auto sales are allowed.)**

8. **How do you think "urban auto dealer models" will be used in the future? What areas of the City make most sense? What are the drivers? Elements might include: structured parking, less inventory kept on-site, additional customer amenities, buildings located closer to the sidewalk/street, etc.**

9. **What are your thoughts on sharing dealer infrastructure? Elements might include: shared parking/vehicle storage areas (both on-site and off-site), shared showrooms, shared service areas, shared on-site amenities for customers, shared signage and marketing, etc. Are there any benefits/efficiencies to this approach? What are some of the challenges to segregating a single dealer's full operations into shared space?**

10. **Are there any perceived, or real, challenges that you've faced in working with the City to either operate or locate an auto dealership?**

Results of Interview Questions

Q1. In your opinion, how have dealer operations changed over the past 5-10 years, and where do you think things are headed in the next decade? Examples might include:

- **a. Increasing trend in high MPG vehicles, including hybrid, clean diesel, and electric cars;**
- **b. Availability of the internet and web sales;**
- **c. Ability to customize cars for future delivery versus buying from on-site inventory;**
- **d. Role of used car sales;**
- **e. Focus on car service at dealerships and the declining importance of body work; and**
- **f. Desire for on-site customer amenities.**

A1a. There is an increasing demand for high MPG and hybrid cars. The demand for these types of vehicles has more than doubled over the past ten years. There are more models of this product class that ever before, thus increasing consumer's variety of options.

A1b. Internet marketing is now an important part of most dealership marketing. A decade ago, sales resulting from leads generated online were present however less prevalent than today. Most customers arrive at the dealership having already performed initial research on the vehicle they are wishing to buy. Customers do not purchase cars directly from the website; rather the internet is a way to influence the early buying process. In the future, internet sales are expected to continue to be a major avenue in which customers learn about our business and the model of car they choose to ultimately purchase.

A1c. Most of our buyers do not order custom for future delivery (non-destination brands). The overwhelming majority purchase from our on-site inventory. Even if a customer wishes for a specific feature, some will opt to purchase another vehicle without said feature if it is currently in-stock. This trend in customers buying what they can "feel" has not changed much over the past 5-10 years.

A1d. Used car sales complement our new car sales departments. Used car sales will continue to be an important avenue that buyers would like to explore. Additionally, and most importantly, used car sales are a higher margin product.

A1e. The type of service performed is varied. It is true that body work has declined over the past decade with smaller niche shops taking the bulk of that business.

A1f. Customers desire to have a comfortable buying and service experience. The needs for existing customers (service customers) differ a bit from new car purchasers. Over the past 5-10 years there has been an increase of the use of in store web-browsers so that customers can continue their research while at the dealership. Additionally, the use of rental car services, complimentary loaner vehicles and complimentary shuttle are staple amenities that customers require when taking their primary vehicle in for service.

Q2. Either based on where your existing dealership is, or when locating a new dealer:

- **a. What are some of your locational requirements?**
- **b. Which are most important?**
  - **i. Examples might include: freeway access, visibility, parcel size, land cost, proximity to customer base, proximity to other dealers, etc.**
  - **ii. How are these criteria different for boutique/destination brands such as Maserati, Ferrari, or Porsche?**

A2a. Generally locations that are approximately within 20 miles of the target consumer base are favorable. Locations outside this radius are not attractive, and buyers have less inclination to seek out our dealership. There is an unscientific "pain point" in having to travel longer than this distance.

A2bi. Proximity to major arterials is preferred, however it was noted in a few responses that this is not necessarily a mandatory requirement. Given the increased customer education via the internet, many buyers already know which vehicle they would like and will "seek out" the proper dealership if within the 20 mile radius. Visibility is preferred if located along a major arterial. The importance of being located closely with other dealers was seen as a general benefit, however it was pointed out that at times being "across the street" from a competitor provides customers more opportunity to choose another brand over theirs. Overall, being closely located to others is a "nice to have" but not mandatory. Land cost was a primary source of concern for the respondents. The average parcel size from surveyed respondents is 5 acres to effectively operate, store inventory and provide service.

A2bii. Destination brands have greater flexibility on location and size. Often an in-mall branding store or a satellite store will suffice given the high level of customization for their products.

Q3. How will the following infrastructure investments affect your franchise?

a. NE 4th Street Extension (116th to 120th Ave NE);
b. Widening of 120th Street (NE 4th to Northup);
c. NE 6th Street Extension (I-405 to 120th Ave NE);
d. East Link Light Rail; or
e. Others

A3. There were mixed responses regarding the infrastructure expansion. While many are affected by the infrastructure changes, most dealerships desire to remain in the City and evaluate options to amend or work around the challenges posed by the expansion.

Q4. It is understood that there are typically benefits to being located near brands that share similar core customer demographics. What brands of vehicles complement your brand the most? Would being located near these dealers benefit your customer traffic?

A4. Complimentary brands seem to be drawn along the general price point of the vehicle. It is more beneficial for luxury brands to be closer in proximity than multiple classes of cars within a single manufacturer.

Q5. Do you have specific requirements for elements of your dealership, or one that you might be helping to locate? Elements might include size of your service center, showroom, parts and supplies, vehicle inventory (including seasonal "high point"), etc.

A5. Yes, there are specific requirements for certain elements of the dealership that vary by manufacturer. Owners have a certain range of flexibility in how they design their space. Specific showroom size, service and parts were not provided by any of the respondents. It has been generally agreed that 60 days of inventory is held on-site.

Q6. What has been your experience working with a manufacturer when contemplating opening a new location or relocating an existing operation?

A6. Manufactures provide guidelines that must be adhered to preserve their brand presence. The manufacture generally does not provide any financial support in offsetting the cost of developing the dealership. This only applies to non-manufacturer owned facilities of course.

Q7. Based on your locational criteria identified above, which areas of the City provide the best opportunity for dealers in your opinion? Could be an existing area or new area.

A7. The response set was varied. Many dealerships prefer their current location, while others given impacts of the infrastructure expansion remarked areas around Bel-Red Road and possibly the Eastgate area made the most logical sense for their franchise.

Q8. How do you think "urban auto dealer models" will be used in the future? What areas of the City make most sense? What are the drivers? Elements might include: structured parking, less inventory kept on-site, additional customer amenities, buildings located closer to the sidewalk/street, etc.

A8. Respondents commented that the urban auto dealer model will be difficult to implement broadly given the current cost to operate such dealerships. While structured parking seems to be a viable solution to condense how one stores inventory, the cost of building such a structure seems cost prohibitive given traditional surface parking alternatives.

General consensus is the urban model works best in densely populated areas that service an area that is highly "walkable." There are no current areas of the city identified by respondents that they feel the urban model is cost effective. Some of the costs that are incorporated in locating inventory off site, additional costs for overhead including staff. Respondents are not averse to locating inventory off the primary site, given the location is in very close proximity to where customers are located.

Q9. What are your thoughts on sharing dealer infrastructure? Elements might include: shared parking/vehicle storage areas (both on-site and off-site), shared showrooms, shared service areas, shared on-site amenities for customers, shared signage and marketing, etc. Are there any benefits/efficiencies to this approach? What are some of the challenges to segregating a single dealer's full operations into shared space?

A9. There were mixed responses regarding sharing dealer infrastructure. Some think that sharing inventory storage in a structured parking garage is a workable solution. Some expressed concerns about moving their business into a city owned structure. When followed with their express with a long term ground lease of the land, that the dealerships would lose control of their expense base.

Q10. Are there any perceived, or real, challenges that you've faced in working with the City to either operate or locate an auto dealership?

A10. The respondent pool conveyed that there is a defined demand for increased commercial zoning. Many dealerships expressed interest in sites that are not currently zoned for automotive dealership use and said this is the biggest obstacle in working with the City.

Section VI – Next Steps

This is Part 1 of a two-part effort. Next steps are to explore the suitability of the existing supply of land within the City zoned for auto sales based on a set of standardized criteria, as well as opportunities to potentially expand the supply while taking into account broader community goals. This work would include a discussion of opportunities and constraints for each area.

A final step will be to perform a second round of stakeholder interviews to review this ongoing work, including the specific needs of dealers in the City (especially those with risks of displacement) as well as follow up on the land analysis.